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Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements and reports of the Board of Auditors for the period ended 31 December 2008 and implementation of the recommendations of the Board relating to the biennium 2006-2007

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2008 (A/64/5/Add.5), as well as the Board's report on the implementation of its recommendations relating to the biennium 2006-2007 (A/64/98). During its consideration of the reports, the Advisory Committee met with members of the Audit Operations Committee, who provided additional information and clarification.

2. The Advisory Committee will consider the Board's report on the capital master plan for the year ended 31 December 2008 (A/64/5 (Vol. V)) when it takes up the seventh annual progress report of the Secretary-General on the implementation of the capital master plan.

II. Voluntary funds administered by the United Nations High Commissioner for Refugees

3. The Board of Auditors issued a qualified audit opinion on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2008 (see

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A/64/5/Add.5). The Board indicates that the qualification relates to the inclusion, in the figure of $1.628 billion shown as total expenditure in statement I, the sum of $498.6 million representing expenditure incurred by the Office of the United Nations High Commissioner for Refugees (UNHCR) on projects performed through implementing partners. The latter amount was subject to independent audits by third-party auditors. As at 29 June 2009, however, of the total amount of $498.6 million that required audit certification, certificates covering $252 million, or 50.5 per cent, had not been received by UNHCR, although the audit reports were generally due by 30 April 2009. In addition, concerning prior years, approximately 10 per cent of expenditure for 2005 had not yet been substantiated by audit certificates as at June 2009. For 2006 and for 2007, 14 per cent and 17 per cent, respectively, were not covered. Of the audit certificates received by UNHCR for 2008, $29.5 million, or 12 per cent of the value of audit certificates received, reflected qualified audit opinions. The Board has therefore been unable to obtain adequate assurance as to the validity of a significant portion of expenditure incurred through implementing partners. This matter had been emphasized by the Board in previous reports, where it recommended improvements to the controls over the management of expenditure incurred by implementing partners.

4. The Board has also emphasized in its opinion the following matters:

(a) The disclosure in note 15 to the financial statements of the value of non-expendable property is based on use of a database, the shortcomings of which have been highlighted in the Board's previous reports. The Board notes that several anomalies have not been corrected and expresses concern about their impact on the accuracy of the amount disclosed as UNHCR assets;

(b) The value of expendable property inventories was not disclosed, as required by the United Nations system accounting standards. UNHCR estimated the value of expendable property to be $109.3 million as at 2 March 2009; however, the Board found that the expendable property database was not fully reliable;

(c) As a result of the provision made in the accounts for end-of-service and post-retirement liabilities, including health insurance liabilities, the reserves and fund balances reflected a deficit of $130.1 million, which, in the Board's opinion, highlights the need for UNHCR to identify funding to cover the liabilities.

5. In its report, the Board states that, for the year ended 31 December 2007, of a total of 21 recommendations, 7 had been fully implemented, 11 had been partially implemented and 3 had not been implemented. Of the 11 recommendations partially implemented and the 3 not implemented, 1 was first raised in 2002, 1 in 2006, and 12 in 2007. Of the three recommendations not implemented, one was made for the financial year 2006 and two for 2007 (see A/64/5/Add.5, chap. II, paras. 11 and 18).

6. The Board's findings and recommendations cover such areas as after-service health insurance liabilities, progress made towards implementation of the International Public Sector Accounting Standards (IPSAS), cash management, management of non-expendable property, expendable property, human resources management, programme and project management, internal audit activities, write-offs, ex gratia payments and cases of fraud and presumptive fraud. **The Advisory Committee trusts that UNHCR will make every effort to implement the recommendations.**

7. A number of the issues raised by the Board have also been addressed by the Advisory Committee in the context of its consideration of the biennial programme budget of UNHCR for 2010-2011 (A/AC.96/1068). Since the report of the Advisory Committee on the biennial programme budget of UNHCR is submitted directly to the Executive Committee of the High Commissioner's Programme, some of the observations and recommendations in that report are summarized below.

8. With regard to the non-receipt of audit certificates, as discussed above (para. 3), the Advisory Committee notes that the situation has not improved despite repeated recommendations by the Board. **The Advisory Committee emphasizes that audit certificates are an important internal control mechanism and believes that the absence of a verifiable audit trail for such a large sum could lead to a heightened risk of exposure to potential fraud. While acknowledging the often difficult environment in which UNHCR operates, the Advisory Committee nevertheless urges UNHCR to take practical measures to address the substantive concerns raised by the Board.**

9. With regard to progress made towards the implementation of IPSAS, the Board continued to review the efforts undertaken by UNHCR and the related adaptation of its enterprise resource planning system. UNHCR is planning to issue IPSAS compliant financial statements as at 31 December 2011. In this regard, the Advisory Committee was informed by the Board of Auditors that, in response to the difficulties encountered by a number of organizations in implementing IPSAS, the Board was preparing a paper to be shared among the organizations, which would clarify the requirements to be met prior to implementing IPSAS. Furthermore, the Board stated its willingness to review UNHCR revisions to its Financial Rules in relation to the full adoption of IPSAS, as it would do for other organizations. **The Advisory Committee therefore recommends that UNHCR submit to the Board proposed revisions to the Financial Rules required for full adoption of IPSAS, when available.**

10. The Advisory Committee notes the difficulties the organizations face in the transition to IPSAS and encourages the active engagement of the relevant expert bodies to ensure sound advice. In this connection, the Advisory Committee welcomes the Board's planned role with regard to the transition to IPSAS.

III. Implementation of the recommendations of the Board relating to the biennium 2006-2007

11. The report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2006-2007 (A/64/98) covers 15 United Nations entities[1] on which the Board reports on a biennial basis to the General Assembly. The Advisory Committee will consider the Board's findings on the

[1] The United Nations, the International Trade Centre UNCTAD/WTO, the United Nations University, the United Nations Development Programme, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the United Nations Environment Programme, the United Nations Population Fund, the United Nations Human Settlements Programme, the United Nations Office on Drugs and Crime, the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia, the United Nations Joint Staff Pension Fund and the United Nations Office for Project Services.

International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund in conjunction with its consideration of the budget proposals for those three entities to be presented to the General Assembly at its sixty-fourth session.

12. As noted in paragraph 7 and table 2 of the report (A/64/98), the number of recommendations made by the Board decreased by 22 per cent over the previous biennium. The rate of implementation also decreased in comparison with the previous biennium (see A/64/98, table 3). Of a total of 507 recommendations made by the Board for the biennium 2006-2007, 238 (47 per cent) had been implemented as at 31 March 2009, 237 (46 per cent) were under implementation, 19 (4 per cent) had not been implemented and 13 (3 per cent) had been overtaken by events. In comparison, of the 651 recommendations for the biennium 2004-2005, 342 (52 per cent) had been implemented as at 31 March 2007, 276 (43 per cent) were under implementation, 28 (4 per cent) had not been implemented and 5 (1 per cent) had been overtaken by events. **The Advisory Committee notes that the rate of implementation of the Board's recommendations for the biennium 2006-2007 has decreased when compared to the biennium 2004-2005 and urges the organizations concerned to intensify their efforts to ensure implementation of the recommendations of the Board of Auditors.**

13. The Board cites a number of common reasons for lack of full implementation, including: (a) the lack, at some organizations, of a dedicated follow-up mechanism; (b) the lack of sufficient inter-agency coordination in the implementation of recommendations that pertain to more than one organization; (c) the undertaking, in the areas of inter-agency coordination, information and communications technology and human resources management, of medium-term projects that take longer to implement; (d) the pending implementation of IPSAS; (e) entities sometimes addressing recommendations in a symptomatic manner; (f) a focus mostly on the main recommendations of the Board and not on other recommendations (see A/64/98, para. 12). **The Advisory Committee underscores the need for the organizations to take measures, at the most senior level, to overcome the deficiencies in the implementation of the Board's recommendations.**

14. For its part, the Board has also identified good practices in relation to the implementation and follow-up of its recommendations, including: (a) identification and monitoring of a list of priority auditing issues; (b) validation by internal auditors and related tracking by some audit committees of management's assessment of the status of implementation of the Board's recommendations; (c) identification of the causes of recurring audit observations and development of appropriate action plans to address them; and (d) establishment of time frames and completion standards for the implementation of recommendations (A/64/98, para. 15).

15. The Board indicates its assessment that most of the organizations will not fully implement IPSAS by the planned implementation date of 1 January 2010 and emphasizes the need for effective monitoring of the project timelines and deliverables to ensure full implementation by the newly decided deadlines. **The Advisory Committee concurs with the Board.**

16. The Board notes that activities, such as human resources reform, the implementation of the recommendations of the High-level Panel on United Nations System-wide Coherence and the enterprise resource planning project, will take some time to come to fruition and indicates its intention to keep those matters under review.